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briefing

Partnerships between technology-based start-ups and established firms: making them work

As companies face pressure from increased competition, shortening product life cycles and growing product complexity many are finding they need to change the way they develop new technologies, products and services. There has been a trend in many sectors away from a mostly closed to a more open model of innovation as companies realise they can no longer afford to rely solely on their own R&D and need to acquire ideas from others[1]. Within this environment start-ups can be an important source of ideas for larger companies. Technology-based start-ups typically lack the strategic and operational rigidities that can stifle innovation in established firms. On the other hand, start-ups have limited resources and often struggle to access the complementary assets they need to get their ideas to market. Bringing together start-ups and established firms in mutually beneficial partnerships seems an obvious solution. Research shows that making such partnerships work can be problematic[2]. However, there are ways to increase the chances of success. Here we indicate some of the problems that can arise – and some possible ways to avoid them.

First, why do companies find such partnerships hard to manage?

The large company's point of view…

Paranoia over IP and NDAs
Start-ups are often reluctant to reveal details of their technology without a non-disclosure agreement fearing their intellectual property may be appropriated. They may fail to see that the large company could already have its own IP in this area.

Brand abuse
Start-ups may use the partner's brand in inappropriate ways in pursuit of

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commercial credibility. *"After we had signed a deal with a start-up, we gave them sight of our confidential technology roadmap. They then went off and talked about this in a press release."* Large firm Technology Manager

Technology or ready-made solution?
Start-ups often perceive their role is to provide a technology to be incorporated into a large firm's product. The large firm on the other hand may want a ready-for-market solution. This gap can be quite significant and start-ups often do not appreciate the time and cost involved in moving from technology demonstrator to fully-supported product.

Financial stability
Start-ups sometimes fail to understand a large firm's need for due-diligence checks to give potential partners confidence in their viability.

Culture
Start-ups may be run by individuals impatient for progress but unwilling to be governed by schedule and discipline. *"We ask for simple things like a business case or cash flow projections or reports and they get resentful. They don't see why they should have to justify everything!"* Large company manager

The start-up's point of view…

How to get in?
While some large firms have very clear points of contact, many do not. The complexity and scale of some large company operations mean that even their own staff are unable to help a start-up contact the right people. One start-up CEO commented: *"The [large company] people would start every meeting with us looking at their organisation charts to try and work out where they fitted into the company. If they didn't know who did what, what chance did we have?"*

Understanding company roles
It is very hard for the start-ups to work out the different roles of people in a large company. Who is the decision maker? Who influences them? Who will be working on implementing the partnership? Who will be affected by its outcome?

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Changing points of contact
Start-ups may start by talking to the large company's technologists who are likely to be enthusiastic and speak the same language. As they move towards formalising the deal the start-up will have to talk to the procurement and legal teams who may treat them quite differently.

Slow decision cycles
Small start-ups are usually able to make decisions very quickly. Large firms, due to their complexity and multiple layers of management often find it very hard to make decisions at 'start-up speed'. This can be very frustrating for the start-up.

Power imbalance
The large firm may intentionally or

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unintentionally 'abuse' its position by drawing out negotiations and attempting to prevent discussions with competitors. This can push the cash-strapped start-up towards accepting a less lucrative deal.

Ignorance of start-ups
Demands made of start-ups by large firms show the lack of awareness of how a start-up operates. *"They would ring us up and ask to speak to our Latin America sales director or ask us to train 20,000 of their consultants. Our whole business was six people in one room."* Start-up CEO

Ways to help make partnerships work

Research shows that companies deal with these issues in a number of ways. Some of the more successful strategies employed are given below grouped under five main headings.

1. Strategy and business model
The start-up is likely to consider multiple possible application areas for its technology. It can greatly assist negotiations if these can be captured in a roadmap that highlights the various opportunity areas and shows the resources needed for implementation. The start-up should also be aware of three possible outcomes of a partnership: it may help to implement the intended business model(s); it may open new opportunity areas; but it may also restrict future opportunities.

The large firm should try to create a roadmap or portfolio map that can be shared with start-ups. This should position the large firm's technology capabilities and needs (including an assessment of the level of criticality) and indicate different opportunity areas. Depending on the level of criticality the large firm may decide to spread risk by having parallel technology acquisition routes.

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2. The technology
The start-up should make a realistic assessment of the readiness level of its technology and identify tasks and costs associated with preparing it for manufacture – including finding out who owns any complementary resources required.

A partnership with a large company may open up new opportunities for a start-up – but it may also restrict future ones...

The large firm should use its roadmap to position the start-up's technology within the broader range of its activities. It should show what complementary resources are needed to bring the technology to market and how this may change over time. It should assess the readiness levels of the start-up's technology and how much of the technology is tacit (undocumented) versus explicit. The commercial viability of the start-up needs to be monitored bearing in mind how critical the technology is to the large firm.

3. Company organisation and culture
Start-ups will find it useful to check whether the large company has ever worked with a start-up before. If they lack large company experience themselves they should seek advice from non-executive directors, mentors or investors. Talking to the large firm's suppliers can help develop a sense of how the larger company works. It is also a good idea to encourage informal interaction between the teams so that the large firm gets a better sense of start-up culture.

A dedicated champion can help shield start-ups from unnecessary bureaucracy and smooth communication...

The large firm should spend as much time as possible helping the start-up to understand the needs, internal processes and culture of the large firm. Process maps can be used to show start-ups how decisions are made. Some firms use a dedicated team or individual champion to act as first point of contact. This can help shield start-ups from unnecessary bureaucracy and smooth communication in both directions.

4. Setting up the deal
The start-up should find out who is likely to influence and authorise the decision to form a partnership. The start-up should have a clear idea what is really expected from the partnership on both sides, what realistically can be delivered, how things may change over time and what the possible direct and indirect benefits might be. Legal advice should be sought at the outset. Though costs will be incurred, they are likely to be less than fixing problems later. As decisions relating to the partnership are likely to be made in the start-up's absence, the start-up should make sure their large company 'champion' is armed with the start-up's viewpoint.

The large firm should ensure that overarching principles concerning the deal are agreed first before moving on to detailed issues. It is essential to be as open as possible with the start-up about any concerns and to be aware of the start-up's cash flow position. Working with the start-up on a small-scale, cash-generating project first can be very useful. It will give both sides a feel for how the other operates and might reveal ways the partnership could develop in the future.

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5. On-going management of the deal
The start-up needs to keep in regular contact with its larger partner – not just when there is a problem. Assigning members of the management team to 'mark' key contacts at the large firm is one way to receive early warning of any emerging problem areas. Documenting all interactions should be a standard part of any partnership management process in case of later disagreements. Staff in the large firm who are key to the partnership may change roles and strategies and business models can change. Regular reviews of the partnership will help ensure the relationship continues on the best footing.

The large firm should ensure time is devoted to managing communication between the partners. The start-up should be kept informed of developments – for example by attending internal conferences – and should be told of impending milestones and their relative importance. If under-performance is noted, the start-up should be informed as soon as possible and help given to address the problem.

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[1] Chesbrough, H. (2003). Open Innovation: The new imperative for creating and profiting from technology, Harvard Business School Press, Boston, MA, USA.
[2] For research details see: http://www.ifm.eng.cam.ac.uk/ctm/research/projects/alliances.html